

April 12, 2002

HONORABLE CITY COUNCIL:

I am pleased to present the budget for the City of Detroit for the 2002-2003 fiscal year.

Preparing this document has been a very difficult task. Detroit is a city with tremendous needs, but our financial resources at this time in history are very limited. As has always been true, national economic problems have had a pronounced effect on this city. We are hampered further by actions the state has taken to limit our ability to raise revenues while at the same time pushing more costs on us.

This administration has been dealing with deficits from the day we took office. The final deficit for the fiscal year that ended last June 30 was \$26 million. That all but wiped out our budget stabilization fund, reducing it to \$8 million.

The deficit we inherited for the current 12-month period that ends this coming June 30 stood at \$75 million when I took office. And when this budget I present today was first put in front of me, it was out of balance by \$94 million. That meant a projected combined shortfall of \$170 million for the two years.

With a lot of hard work, we have been able to correct that situation. I am proud to tell you we now expect to end this fiscal year without a deficit. That has been achieved, by the way, without the sale of the Detroit House of Correction property.

We balanced this year's budget through a series of management initiatives, beginning with a cost-cutting plan, developed with input from city departments, that reduced the deficit by \$44.5 million. In January we began a review of unspent appropriations throughout city government, freezing those that could be frozen. That saved us an additional \$26 million. Other factors that have helped close the gap include higher than expected wagering taxes, improved property sales and settlement of the negotiations with the state over funds for 36th District Court as the state phased out its support for district courts.

In addition to having good news about our current fiscal year, I am proud to present to you today a balanced budget for fiscal 2002-2003.

It is a very lean budget, designed to stay within our available revenues yet deliver the best services possible to our residents.

It is so lean, in fact, that the General Fund budget for the new fiscal year starting July 1 is actually smaller than the General Fund budget for the current fiscal year. Smaller by \$69

million, to be exact. It's the first time the General Fund budget has gotten smaller since the 1993-94 budget.

This budget is so lean, it provides for no pay increases for city employees, either during the current fiscal year or the next, in order to save as many jobs as possible.

It institutes some selective reductions in city services, such as reducing staffing at City Airport to levels needed for a general aviation facility rather than a commercial facility and not reopening the Belle Isle Zoo this summer.

It involves some reorganization of city departments and such functions within those departments as demolition, rodent control and environmental enforcement. And it anticipates only a small number of layoffs, at most, in selected departments.

The exact number of layoffs, if any, is not clear yet because we do not know precisely what vacancies exist for people to "bounce" into as their current position is eliminated. Our best estimate is that the maximum number of potential layoffs is 18. We believe the final number will be smaller than that.

As I get into the details of the budget, I want to begin by reviewing with you our financial situation.

As we look at our revenue picture, we start with the reality that our city income tax is being reduced again this year as the result of action taken several years ago by the Michigan Legislature and Governor Engler. The tax is going down at the rate of one-tenth of one percent per year until it reaches 2 percent for city residents and 1 percent for nonresidents in six years.

In the coming fiscal year, it will be 2.6 percent for residents and 1.3 percent for non-residents. Each one-tenth of one percent reduction costs the city \$14 million. That means income tax revenue for fiscal 2002-2003 will be \$56 million less than it would have been without the state-imposed rollback. That is more than half the projected shortfall we have been working to close. If those funds were available, we would be able to do much more to meet this city's needs in such areas as public safety. But Lansing has tied our hands.

As a result, we have been forced to use casino revenues to plug the hole in revenue created by the state mandate. If we did not have an estimated \$105 million in casino taxes coming in next year, we would be in very serious trouble. To give you an idea of the impact casinos are having on our revenue picture, these three institutions by themselves are paying an amount equal to about one-third of all of our income tax revenues for the year.

Even without the state-imposed cut, income tax revenues would be down. With the cut, they will be down a total of 16 percent from the current fiscal year, dropping from \$384 million to \$323 million.

Another state mandate that has hurt us is the transfer of responsibility for 36th District Court operations to the City. The budget I am presenting today includes \$32 million to cover that cost.

Before the state transferred full responsibility to the City, the City's share of court expenses was only \$11 million per year.

One step we are taking to augment revenues is a 25 cent per ride increase in bus fare on DDOT buses, the first fare increase in more than 10 years. The increase brings the ticket price for adults to \$1.50 and for students to 75 cents per ride. The student fee will only be 10 cents more than I paid to ride the bus to Cass Tech 15 years ago. Seniors and disabled individuals still will be able to ride free. The increase puts DDOT in line with SMART fees and is expected to raise \$6.5 million, funds that otherwise would have to come from the city's General Fund subsidy to the DDOT budget, which this year stands at \$80 million.

We also are looking at passing ordinances to make certain offenses that now are violations of state law, such as drunk driving, violations of our city ordinances as well. Creating a city ordinance to cover these activities would mean the fines that results from arrests in Detroit would remain in Detroit, rather than reverting to the county or state. In conjunction with the 36th District Court, the Law Department is currently working on draft ordinances to accomplish this goal. This action will make the amounts of city fines on par with those of surrounding suburbs and state laws.

We also are using a significant portion of the one-time payments we will receive from our new agreements with the three Detroit casinos to provide the final piece of revenue we will need to balance the budget. This would not be my first choice for balancing this budget if all things were equal. I am reluctant to devote one-time revenues to cover operating expenses. But I believe economic signs point to a post-9/11 recovery and that this one-time expenditure can help tide us over the roughest part of our problem.

I also would point out in our efforts to improve the opportunities for Detroit-based businesses, we have allocated \$10 million from the casino settlement for a targeted business development program. We have been meeting with representatives of the minority business community to fashion such an effort. I look forward to working with City Council so we can craft a successful program.

Our State Equalized Valuation for the coming year is up 4.4 percent, projected at \$7.97 billion. The debt service tax rate will actually be down more than \$1 in 2002-2003.

One of the steps currently underway to enhance our revenues is the property tax amnesty program that began the first of this month. Under the plan, which your Honorable Body approved, anyone in arrears on their property taxes can pay them without penalty if they do so by the end of April. At the end of the amnesty period, the city will then step up our enforcement and collection of delinquent property taxes, including instituting legal action and turning past due accounts over to a collection agency.

The city currently is owed some \$95 million in delinquent property taxes, with a substantial amount of that total owed by corporate property owners. If all the delinquent property taxes had been paid, we would not be facing the deficit situation we are now forced to deal with.

Finally, I would point out that this budget continues the vehicle financing program which was instituted to get the city on a more regular schedule for replacing vehicles. Under this plan, the city buys vehicles on credit, the same as many consumers, making regular payments on each vehicle rather than one lump sum payment up front. This allows us to spread the cost of the vehicles over time and helps us have a steadier turnover in our fleet. The allocation in this budget is \$28 million, including \$4 million for police vehicles and another \$4 million for fire vehicles.

As those who have followed this administration know, we began this year announcing three initial priorities, which we have summarized as “Kids, Cops, Clean.” “Kids” refers to a program we call “Mayor’s Time” involving after school activities for all Detroit school children that will start this fall. “Cops” refers to the restructuring of our Police Department now underway under the direction of Chief Jerry Oliver. “Clean” refers to our plans for a citywide cleanup this spring and summer.

Even within our limited resources, this budget includes initiatives that reflect these priorities.

The “Mayor’s Time” program is being designed to provide an after school environment for our young people to help them develop cognitive skills, not just keep them occupied. The city already has a number of programs working with young people spread through a number of departments. To strengthen our ability to effectively serve the needs of our young people, this budget is focusing these efforts by reassigning the Youth Department staff to two on-going programs in other departments.

Three members of the Youth Department staff are being moved to the Recreation Department After-School Programming Unit. There they will work to expand activities aimed at enrichment, cultural and social activities, learning to use technology and environmentalism.

The remaining Youth Department staff are being consolidated into the Child Development Division of Human Services to focus on the needs of at-risk youth.

In addition, the Detroit Zoo will initiate new education programs targeting underserved young people, including teacher workshops, outreach programs, summer safari camps and onsite programs.

This budget also allocates \$2.26 million in bonds for the expansion of the Detroit Historical Museum, which already serves 80,000 school children per year.

For the “Cops” portion of the initiative, even with our limited resources, this budget includes increases for all of our public safety departments, including the Police Department. It provides for a small class of 32 new officers to begin training in July. With the initiatives the Chief has taken to move people from behind desks and back out to street, I believe this will provide the staffing levels needed to have an effective Police Department in the coming year.

As I mentioned earlier, this budget also includes \$4 million for new police vehicles which will include new scout cars and auto patrol wagons. It also includes \$1.1 million to lease three new helicopters to improve Police patrol capabilities.

Other public safety improvements include a new mobile fire safety house, 16 new ambulances, two new ladder trucks and six new pumpers.

We also have announced a comprehensive homeland security action plan to safeguard the people who live, work and visit Detroit from acts of terrorism. The plan will be supported with state and federal funds and will have no impact on the General Fund budget.

The third part of the program – “Clean” – actually was kicked off at the end of January when we launched an accelerated demolition program. The cleanup is important because if a city is going to have pride, it has to be clean.

The citywide cleanup, which will be known as the Motor City Makeover, will offer City resources and coordination to tens of thousands of Detroiters who will volunteer to scour this city clean. Under the program, we will divide the city into 10 sectors, then clean two sectors at a time spending two weeks on each area.

I have assigned a point person to coordinate all activities, which will be organized through Neighborhood City Halls, neighborhood, civic, religious and educational organizations as well as area businesses and corporations. We will be announcing the schedule in the near future.

This budget includes a series of measures to strengthen and make more effective environmental services in the City so that the results of the cleanup can be sustained.

To begin with, we are enhancing the role of the Department of Environmental Affairs (DEA) in the enforcement of City environmental codes as well as in redevelopment activities. Environmental control inspectors that have been a part of the Department of Public Works are being reassigned to Environmental Affairs, as is the Environmental Planning Section of the Planning and Development Department.

The centerpiece of the environmental code enforcement effort is a new Illegal Dumping Ordinance that will be submitted to you next week to provide the basis for more aggressive environmental enforcement. The ordinance will enhance the City’s power by providing fines and penalties of up to \$10,000 per violation per day, greatly strengthening our ability to deal with those who deliberately trash our city.

By taking this area out of the criminal courts and moving it to the civil area, this also will streamline the process. There were some 20,000 violations issued in the city last year, but the courts are so overloaded they don’t want to deal with it. This new ordinance will give us much more effective enforcement powers.

The inspectors reassigned to Environmental Affairs will continue to work with police officers assigned to the Illegal Dumping Task Force and will be cross-trained to address a variety of other

community environmental violations. The City for the first time will audit the conditions of special land use grants and seriously regulate harmful land uses under Your Honorable Body's 1998 Zoning enforcement Initiative amendments to the Zoning Ordinance. The team also will deal with other issues such as junkyards, air and nonpoint source pollution.

Moving the environmental section of Planning and Development to Environmental Affairs will strengthen the City's redevelopment efforts. We need to establish citywide standards in order to insure the City's compliance with an increasingly complex regulatory environment. The move will expedite the development process, duly recognize or prevent costs and potential liabilities associated with technical environmental issues, and make available special environmental expertise needed to interface with developers, state and federal governments.

One other reorganization step involves moving all responsibilities for rodent control from DPW to the Health Department. This reassignment will allow the Health Department to expand its Rodent Impact Program citywide. Ultimately we will cross-train these inspectors with restaurant and community and industrial hygiene inspectors. As responsibilities currently are assigned, when food inspectors see rodent problems behind a restaurant, they are powerless to issue tickets. This change will enable them to do that.

We should take note of the fact that the Health Department has been awarded accreditation with commendation by the Michigan Department of Community Health. This rigorous evaluation process is required of all local health departments. Only those who meet approximately 200 performance standards can become accredited. The commendation designation indicates that the Detroit Health Department has met additional important indicators of excellence in public health.

Taken as a whole, these reorganization steps will make it possible to better coordinate field activities and help move the City away from a complaint-dominated overall approach to a more proactive and ultimately preventive approach. In 2002-2003, field staff will be deployed according to the 10 districts under which the citywide cleanup is being organized. We will be able to electronically track field activities within each operation so that trouble spots can be targeted and progress measured.

These districts were developed from the Community Reinvestment Strategy, which grew out of an intensive review of the city and neighborhood organizations under the previous administration.

This budget consolidates responsibility for demolition within Buildings and Safety Engineering. This will bring about a streamlined approach to identifying dangerous buildings, tracking their status and progress through the system and interaction with other departments. It reduces duplicate databases and allows management of a single process. Through having one responsible department we will improve the timeliness of data sharing, the coordination of demolition efforts and make it easier to realize continuous improvements in the process.

In the coming fiscal year, we will institute a citywide planning process for agency telecommunications purchases and services, to reallocate services and improve monitoring of usage patterns, bill payment, cost accounting, and tracking of usage information for future

service planning. We will free ITS staff to focus on negotiating new rate agreements and service packages with vendors, and to update equipment specifications consistent with our operating requirements and transfer that under the auspices of the CFO.

The City of Detroit spent almost \$16 million in 2000-01 on telecommunications alone. Pagers alone are costing us \$500,000 per year, and cellular phones cost more than \$1 million per year. Long distance and other data services are spiraling as well. Clearly the time to get better control over these cost factors is now. We anticipate savings of at least \$500,000 per year with these initial process improvement efforts.

I also have created a committee within my cabinet to review all substantial contracts to make sure they are cost-effective. One of the places where we see we can make an immediate fiscal impact is with the enormous amount of contracts that the city issues.

I also have appointed a separate committee of business and labor leaders to look for ways to reduce expenses, eliminate redundant processes and streamline operations that are ineffective and inefficient. They are to complete their work by the end of May.

This budget eliminates two city departments. The first, which I have already mentioned, is the Youth Department. The second is the Consumer Affairs Department. All the functions of both departments are being maintained. The only reductions are in administrative overhead.

The consumer advocacy positions now housed in the Consumer Affairs Department are being reassigned to the Office of Consumer Advocate in the Senior Citizens Department, which already performs informational and outreach functions. Consumer advocacy staff will continue to mediate consumer complaints, counsel consumers, and offer consumer education services.

In addition, they will actively collaborate with Neighborhood City Halls to increase citizen access to consumer protection services at the grass roots level. Now, they will do so with the resources of the Senior Citizens Department behind them, and likewise, the Senior Citizens Department gains information and outreach advocates. These operations will support each other.

The responsibility for business licenses and permits now issued by Consumer Affairs will be transferred to the Planning and Development Department, which already has the Welcome Center, a one-stop operation for development information. This move helps to strengthen that center as well as helping to integrate the land use and development implications of business issues into development planning, through tracking and networking.

Finally, the Weights and Measures Division of Consumer Affairs is being transferred to the Fleet Control Division of the Police Department, which already inspects taxicabs for meter seal inspections as well as enforcing traffic ordinances such as those covering overweight trucks.

The reorganizations are part of my Executive Organization Plan, required by the City Charter to set forth programs, services and activities of all executive branch agencies. As you may know, before 1974 the Weights and Measures function was in Purchasing and Business Licenses were

issued in Building and Safety Engineering. Until the 1960s, the Health Department was responsible for rodent control.

As a new Mayor I will constantly look to streamline city processes and better focus city services. I will submit my Executive Organization Plan to you in the next few weeks so that you have the full 60 days allocated to you by the Charter for review of the plan before the next fiscal year begins on July 1.

Overall, this budget funds about 1,000 fewer positions in city government than the current budget. That reduction comes in two primary ways – not filling some 629 currently vacant positions and removing the Housing Department from city government, as is required by state law, resulting in a reduction of 422 positions.

The Housing Department, for all practical purposes, already is an independent agency. Its funding comes solely from federal grants, all its property belongs to the federal government rather than the city, the federal government has made it clear they want us to separate it and the state has passed a law requiring that. Other housing authorities around the country are not a part of the government of the municipalities in which they are located. Placing Housing within or outside the budget makes no difference in terms of a potential deficit, since the funding is entirely federal funding. This budget does continue a \$1 million General Fund supplement to provided additional security for seniors living in public housing.

One other decision I want to mention is the decision not to reopen the Belle Isle Zoo this summer. About 50 percent of the animals at Belle Isle will be transferred to the Main Zoo with others to be transferred to accredited institutions within the state or country. The Zoo Department is developing a plan to do this. Animals that need to be transferred will be left at Belle Isle until an institution is found to transfer them to.

The largest single expenditure in the budget is for salaries. You will notice as you review this budget that it includes no pay increases for city employees, either for the current fiscal year or the next. I have made clear my feeling in the past that our city employees – particularly our public safety workers – are underpaid for what they do. I would like to be able to provide them a raise. But the money just isn't there. And one of the ways we are avoiding any larger number of layoffs is to hold city salaries at their current levels. Any raises for city employees in the next year will have a direct effect of causing layoffs.

As you know, contracts with all city employees expired last June 30. They are working without a contract. In fact, this is the first administration in the history of the city to come into office in the middle of contract negotiations.

I met in February with the union leadership and asked them to allow this administration to have a 60-day period before we move forward with contract negotiations. I appreciate all those unions for stepping forward and agreeing to that period of time.

The 60 days are now up, and I can report to you that we have meetings scheduled in the near future with the five largest unions – AFSCME, the DPOA, the Firefighters, the Teamsters and

the ATU – to resume negotiations. I am determined to provide as fair a contract as I can to our city workers within the context of the severe financial situation we face.

Our ability to keep our labor costs at an affordable level will go a long way toward determining our ability to maintain needed services and effectively manage this City in the coming year. As I said earlier, any increases in salary costs would inevitably lead to layoffs and cutbacks in key service areas.

That is the outline of the budget I am presenting to you this morning. Each of you has received individual copies in your offices. Others who are interested in learning more can do so by logging onto the City of Detroit website at www.ci.detroit.mi.us.

I certainly wish I could present you with a rosier picture. But we have to be realists as we finalize our spending plans for the next fiscal year. The weakened national economy has had the same effect on Detroit as always. It's still true – when the nation catches a cold, Detroit catches pneumonia.

We also must understand that a series of decisions in Lansing, decisions driven by people who haven't always had Detroit's best interest in mind, have reduced the resources available to us. For instance, if our income tax were not being forced down, we would have an additional \$56 million to hire more police, take other steps to upgrade our homeland security, and provide our workers with the raises we wish we could provide them.

You will now begin your review of this blueprint for City government. I urge you to review it carefully. Members of this administration are ready to answer your questions and provide you with the information you need to fully understand where we are and how we have arrived at this point.

I look forward to good exchanges of information and a final budget that serves the people of Detroit well.

Respectfully submitted,

Kwame M. Kilpatrick, Mayor